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Governor Signs Bill to Stop Tax on Loan Modifications– updated 9/18/2014

If the principal on your mortgage was reduced in a loan modification, a new law may lower your taxes.

Governor Jerry Brown recently signed AB 1393 (Perea), legislation that will prevent homeowners from being charged state income tax when they’ve had a mortgage loan modified to reduce the principal. Under current law, the forgiven debt created by a reduction in principal as a result of a loan modification isn’t subject to federal income tax, but is currently taxable under state law. The law will become effective immediately and is retroactive to January 1, 2014. This is great news for homeowners. The CALIFORNIA ASSOCIATION OF REALTORS® supported this measure.